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Letter Ruling 81-88: Charitable Remainder Unitrust

October 1, 1981

You request a ruling concerning the character of income distributed to a Massachusetts beneficiary by a charitable remainder unitrust. The income distributed is comprised of Massachusetts savings bank interest, corporate bond interest, interest on United States obligations and dividends.

You present the following statement as a representative sample of a qualifying unitrust’s income for the year:

Massachusetts Savings Bank Interest	\$100
Corporate Bond Interest	100
U.S. Government Interest	100
Dividends	<u>100</u>
Total	\$400

You further assume that \$250 of this income is distributed to a Massachusetts resident beneficiary. (The ratio of the distribution to the total income of the unitrust is .625).

Under General Laws Chapter 62, Section 11, amounts distributed by a charitable remainder unitrust, as defined in Section 664 of the Internal Revenue Code, shall, for purposes of taxation under Chapter 62, be considered as having in the hands of recipients thereof the characteristics described in subsection (b) of Section 664.

Section 664(b) and the regulations thereunder provide that unitrust distributions shall be treated as having the following characteristics in the hands of the recipients:

“First, as ordinary income to the extent of the sum of the trust’s ordinary income for the taxable year of the trust and its undistributed ordinary income for prior years... Second, as capital gain to the extent of the Trust’s undistributed capital gains...”

Massachusetts gross income is federal gross income with certain modifications. (G.L. c. 62, s. 2). One of these modifications is the deduction of interest on United States obligations exempt from state taxation. (G.L. c. 62, s. 2(a)(2)(A)).

Massachusetts gross income is divided into Part A taxable income, which is taxed at the rate of 10%, and Part B taxable income, which is taxed at the rate of 5%. Part A income is composed of dividends, net capital gain and interest other than interest on savings deposits in banking institutions in Massachusetts. Part B income is all other income subject to taxation.

Based on the foregoing it is ruled that:

1. Dividends and corporate bond interest distributed by the charitable remainder unitrust are Part A income taxable at the rate of 10% plus surtax.
2. Interest on savings deposits in banking institutions located in Massachusetts is Part B income taxable at the rate of 5% plus surtax.
3. Interest on U.S. obligations is exempt from Massachusetts income taxation.

In your specific example, the beneficiary's Part A income is \$125 (\$62.50 of corporate bond interest and \$62.50 of dividends) and his Part B income is \$62.50 (Massachusetts savings bank interest).

Very truly yours,

/s/L. Joyce Hampers

L. Joyce Hampers
Commissioner of Revenue

LJH:RSF:mf

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